



AUDITOR'S OFFICE



AUDIT SERVICES

SUMMARY OF INTERNAL CONTROL REVIEW ACTIVITIES

REPORT NO. 23-01

February 2023

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I. Report Summary

The Internal Control Review (ICR) is usually conducted by a team of two auditors to take a focused look at some aspect of your organization's operations. It may be as simple as a cash count of petty cash or a register or as complex as following balancing transactions, inventories of high-risk assets or supplies and review of security procedures.

The focus is to ensure that the County's cash and assets are properly secured, controlled, used consistent with their intended use and for the needs of the County. The design of the controls should be risk based of not only the amount of the starting fund balance but should include the volume of revenue it transacts. Decisions about which ICRs to conduct are made based on a risk assessment.

In 2022, our office conducted in person and remote reviews of various types of funds. Our 23 reviews took place in eight departments and covered 20 funds. We issued 38 recommendations with risk categories between high (13%), medium (66%) and low (21%). The most common recommendation issues were "*Reconcile & Replenish funds consistent with BARS*". We commended the Treasurer's Department and Auditor' Elections Office for their proactive and timely work at addressing internal control challenges. There was no reported loss of funds in 2022 but the county did experience losses in equipment. The most common were cell phones.

These reviews are designed in keeping with RCW 36.22.040 which calls for the audit of all claims, demands and accounts against the county. Clark County Code 2.14.020 also requires Audit Services to perform analytical reviews of internal controls and accounting records with the intent of evaluating the security of county assets as well as the accuracy and reliability of financial reports. These limited evaluations are a service that is not an audit under the Generally Accepted Government Auditing Standards (GAGAS). The design, implementation, and ongoing monitoring of internal controls are a management responsibility.

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Note

Please note that volume and cash value of transactions in this report are provided by departments and included as background for general context. Their purpose is to indicate the risk around each fund and the required controls. They should not be used to compare to other financial reports. Some variance exists on what comprise the count and value; for example, the Treasurer’s Office stated that their report includes all transactions handled by the joint lobby while the Tri Mountain Golf Course only includes items sold.

This report can be downloaded from the Clark County Auditor’s Office external web page, under Internal Audit Services/Audit Reports, at <https://www.clark.wa.gov/auditor/internal-control-review-reports>.

III. 2022 ICR Program Results

In 2022 Audit Services performed 23 reviews from 20 funds located in 8 county departments. The reviews were performed in person and remotely. For both in person and remote reviews, auditors discussed, operations and related internal controls with staff which may have included an internal control review checklist based on fund type. During in-person reviews, we also perform physical counts of funds and directly observe controls. Of the funds that perform financial transactions, staff reported that these funds handled approximately 422,457 transactions/activity with a pass-through revenue valued at approximately \$306,074,590.59, see table 1. We issued 38 recommendations and 2 commendations. For the complete list by fund please see Appendix B.

Department	Number of Funds	Number of Transactions	Value of Transactions	Number of Recommendations
Public Works	4	137,037	\$ 610,950.00	13
Human Resources	1	156	\$ 8,815.00	3
Prosecuting Attorney's Office	1	1	\$ 2.50	3
County Clerk	1	5,044	\$ 8,151,804.00	1
Internal Services	2	212,460	\$ 3,398,446.09	8
Sheriff's Office*	7	4	\$ 258.00	7
Public Health	1		\$ 4,586,878.00	2
Auditor's Office	2		\$ 6,728.00	1
Treasurer's Office	1	67,755	\$ 289,310,709.00	0
Totals:	20	422,457	\$ 306,074,590.59	38

Table 1: Funds Reviewed in 2022

2022 Findings by Risk Level

The High, Medium, and Low risk levels are comprised of a general grouping of control deficiencies categories that funds may experience. Control deficiencies categories' rankings are based on historical occurrences and general risk guidance. Unique or less frequent issues are placed in the general "other" category for each risk level. The following are 2022's areas of improvement we made recommendations for and are listed within each level, with the most frequent category listed. For the complete list by fund please see Appendix B.

High Risk: 5 findings or 13% of total recommendations

In 2022, there were five recommendations within the High-Risk level. One of which is Ineffective or lack of implementing management reviews may increase risks such as noncompliance, theft, or abuse. Management is responsible for performing reviews to ensure that the controls are operating as designed. Another is the lack of segregation of duties. There are several incompatible duties when transacting monies which include receipting, depositing and account reconciliation.

One person should not have control of two or more without the use of compensating controls which may include additional reviews. The remaining three recommendations fell within “other” high risk issues.

Medium Risk: 25 findings or 66% of the total recommendations

The majority of the recommendations issued fell within the Medium Risk level. The most frequent among them was the lack of timely reconciliation or replenishment. The Washington BARS manual requires that reconciliations and replenishments be conducted at a minimum monthly. Performing reconciliations in a timely manner reduces the risk of loss by providing management an opportunity to identify errors or loss of funds. The second most frequent recommendation covers the need for developing or adjusting written procedures. The third covers additional staff training on designed controls. If management identified staff errors in the implementation of controls, additional training on designed procedures can aid staff in reducing the frequency of those errors.

Low Risk: 8 findings or 21% of total recommendations

It is important to update the custodian of record with the Treasurer’s Office when changes in duties or staff turnover occurs. A designated person is responsible for the security, replenishments, and appropriate use of the fund. The remainder of the recommendations did not fall under a specific category but covered subjects such as additional detail in logbooks, possible closure of underused fund, proper disposal of unused vouchers, and reduction of fund balance. Updating fund controls should reflect department unique operating circumstances (i.e., 24-hour, 7 days etc.) in keeping with fund approved use and required controls.

Reported Losses in 2022

Departments can experience missing funds or items. This may be due to theft, miscount, or misplacement. Departments should report losses to our office, and we will review with departments if the loss is reportable to the SAO.

In 2022, there were no reported loss of funds. In 2022, cell phones were the most common item that came up missing. Any technology item loss should include notification to IT to ensure that any data concerns are addressed.

Interesting note, a department reported loss of equipment due to theft. A work crew was working with measuring equipment when a vehicle drove up, grabbed a unit, and drove off. This serves as a reminder that internal controls cannot anticipate every instance of loss. While these items were reported as missing, there were no losses determined to be reportable to the SAO in 2022.

If staff has lost or had Clark County equipment, supplies or cash stolen from them, the department is responsible to report it through the proper channels. If staff has observed

or become aware of a theft or loss, they are also required to ensure it is reported in a timely manner for the best chance of recovery. A single incident of an inconsequential cash drawer overage or underage that the supervisor determined was acceptable to write off is not required to be reported, but when in doubt, ask Audit Services.

Audit services works with the department to determine if the loss is reportable to the State Auditor. When items related to information technology go missing, we also notify IT to ensure any concerns related to data are addressed.

Commendations

The Treasurer's Office developed a memo describing additional detective controls to identify and evaluate the risk of noncompliance with the RCW and provided a draft for our review. We commend the Treasurer for taking proactive action to address this issue. The Elections Office, within the Auditor's Office, provided an updated exemption form the day following our visit. Staff noted that written procedures had not been updated to reflect recent changes but provided updated written procedures shortly after our visit. We commend the Elections Office for working quickly to resolve these items.

Department Self-review

Management may perform internal self-reviews of fund or high-risk items to verify that they are in keeping with approved totals. The frequency of reviews should be balanced with the value of the funds and the associated risks. In 2022, Community Development shared with our office supporting documents on their \$1,400 fund reviews. During a 12-month period they conducted 70 till reviews. Public Works' Shop shared 5 monthly reviews of their parts inventories that averaged 22,419 items in stock with average value of \$287,793. The Treasurer's Office forwarded copies of 107 till reviews performed within a 11-month period of their \$14,750 fund.

IV. Conclusions

Department Staff design internal controls to address the associated risks when managing funds and/or equipment. Internal Control Reviews by our office provides an opportunity for department controls to be tested. The goal of the ICR program is to aid department identify any weaknesses and recommended improvements to increase their effectiveness.

Appendix A: Objectives, Scope, and Methodology

Objective: Audit Services works with petty cash funds, change funds, checking accounts, receipting functions and cash equivalents (“assets”). That work includes testing a range of internal controls including balancing cash or checking accounts; reviewing supporting records; and performing a limited review of those controls associated with the processing and depositing of payments received.

Scope: More specifically, internal control reviews focus on determining that:

- All funds are properly authorized and at their approved amounts,
- Procedures and practices are in place to ensure funds and assets are properly safeguarded and accounted for, and
- Transactions are approved and records are maintained which adequately support the administration and activity of the fund.

Methodology: Reviews Based on Risk Analysis

Audit Services conducts an annual risk analysis of petty cash funds, change funds, checking accounts, receipting functions and cash equivalents (“assets”), 43 total. Our work plan is reviewed by the Audit Oversight Committee and approved by the County Auditor.

In selecting funds for review, we consider:

- The date of the last review.
- Findings from the last review.
- Type of fund or account.
- Financial exposure (fund balance).
- Management oversight of the fund.
- Fund status (e.g., new, established, or inactive)
- Number and total value of fund transactions

County Funds

In 2022, Clark County and its affiliated agencies had a total of 43 cash or asset management funds. The number of cash (checking, receipting and change) funds has decreased from the 45 reported in the 2021 ICR summary report.

Appendix B: Summary Report

Low Risk Level >	Medium Risk Level >>	High Risk Level >>>
Control Deficiency Category	Control Deficiency Category	Control Deficiency Category
Account Inactive: Elevated Risk	Mailed Funds: Dual Opening Recommended	Checks: Not Endorsed When Received
Custodial Records: Treasurer not Current	Deposits: Not Timely	Correcting logs & records: only line through
Excess Funds: Need to Reduce Balance	Account Balance: Over/Short	Key Duties: Not Separated
Excess Funds: Need to Escheat Funds to State	Develop or Adjust Written Procedures	Management Reviews: Ineffective or Missing
Receipts: Cancel or Mark to Prevent Reuse	Reconcile & Replenish funds consistent w/BARS	Improve Security: Funds, Records, Valuables
Other low risk issues (multiple reasons)	Training: More staff training recommended	Other high risk issues

Number of Recommendations Made	Control Deficiency Category	Control Deficiency Category	Control Deficiency Category
3	0	1	1
0	1	1	1
3		1	1
2	1		
1			
2	1		
1			
3	1		
1		1	1
1	1		
2			
1		1	
1			
0	1		
1			
5	1		
1			
1			
1			
0			
1			
5	1		
34,250			
34,250			
34,250			
34,250			
67,755			
0			
162,477			
422,457			
38	0	2	1
38	0	13	3
7	0	5	2
0	2	3	2
	0	2	5
	0	0	13
	0	2	66%
	2022 low risk: 21%	2022 medium risk: 66%	2022 high risk: 13%
	2021 low risk: 14%	2021 medium risk: 57%	2021 high risk: 29%
	2020 low risk: -	2020 medium risk: -	2020 high risk: -

ICR #	Owner - Fund Name	Annual Pass-Thru Value	Est. Annual Transactions
644	HR - CTR - Bus Passes	\$ 8,815.00	156
645	PW - Sewer Treatment Plant	\$ -	0
646	PA - Crime Victims Trans Cash Drawer	\$ 2.50	1
647	PW - Roads - 78th Street	\$ 74.00	6
648	Clerk - Trust Fund Checking	\$ 8,151,804.00	5,044
649	Sheriff - MCU Informant Fund	\$ -	0
650	Sheriff - MCU Petty Cash	\$ 258.00	4
651	PW - Parks Shelter & Sports Field Rental	\$ 136,676.00	31
652	IS - Fair	\$ 1,042,588.00	49,983
653	Sheriff - Tactical Detectives Unit	\$ -	0
654	Sheriff - TDU Petty Cash	\$ -	0
655	Health - Environmental Change Fund	\$ 4,586,878.00	
656	Auditor - Elections	\$ 6,728.00	
657	DTF - Drug Task Force - Petty Cash	\$ -	0
658	DTF - Drug Task Force - Seizures	\$ -	
659	DTF - Drug Task Force - Drug Buy Fund	\$ -	0
660	PW - Parks - Lewisville Park	\$ 118,550.00	34,250
661	PW - Parks - Frenchmans Bar Park	\$ 118,550.00	34,250
662	PW - Parks - Salmon Creek Park	\$ 118,550.00	34,250
663	PW - Parks - Vancouver Lake Park	\$ 118,550.00	34,250
664	Treasurer - Vault and Change Funds	\$ 289,310,709.00	67,755
665	Auditor - Recording & Marriage Lic. Change	\$ -	0
666	IS - Tri-Mountain Golf Course	\$ 2,355,856.09	162,477
	Est. total	\$ 306,074,590.59	422,457

ICR #	Owner - Fund Name	Annual Pass-Thru Value	Est. Annual Transactions
23	ICRs in 2022	2021 Estimates \$ 306,074,591	422,457
7	ICRs in 2021	2021 Estimates \$ 1,936,965	68,920
0	ICRs in 2020 Due to COVID-19 Pandemic	2020 Estimates \$ -	-



Appendix C: Key References

Involvement of the governing body in establishing, changing or closing revolving funds is a requirement of the Washington State Auditor's Office (SAO) for imprest, petty cash, and other revolving funds under Budgeting, Accounting and Reporting System ([BARS](#)) manual chapters 3.8.8.15 and 3.8.8.20. The SAO promulgates the BARS manual and requirements for local governments under RCW 43.09.200. Below are a highlighted selections of requirements that are important to be familiar with.

BARS 3.1.3.100 Accounting – Accounting Principles and Internal Control (extract)

The Washington State Auditor's Office does not require specific controls to be implemented by governments. Management is only required to ensure that whatever controls they choose to implement be adequate to **provide reasonable assurance** regarding compliance and financial reporting risks. **The burden of demonstrating the adequacy of internal controls rests on management**, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

BARS 3.6.1 Accounting- Revenues: Cash Receipting (extracts)

1. Every public officer and employee, whose duty it is to collect and receive payments should deposit receipts with the treasurer of the local government **at least once every 24 hours**. The treasurer of the local government may grant an exception where such daily transfers would not be administratively practical or feasible (RCW 43.09.240).
2. **Deposits must be made intact**, meaning all payments received must be deposited without substitution. This is evidenced by the composition of checks and cash listed on the deposit slip matched to related receipt records.
3. **Checks must be restrictively endorsed** "For Deposit Only" immediately upon receipt.

BARS 3.6.1.40 Accounting – Revenues: Internal Control

The following are minimum expected controls for cash receipting:

1. More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the government should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.
2. Deposits may be prepared by the person who received the payment. The government should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.

3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.
 4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.
 5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.
 6. The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.
 7. Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.
 8. Receipts should be physically safeguarded during the operating day and secured in a safe or vault overnight. Access to the cashing area should be appropriately restricted whenever possible.
 9. Access to the safe or vault should be limited and combination should be changed periodically.
- In addition, the safe and vault combination should be changed after employees terminate employment.
10. If the government utilizes cash registers, there should be one change fund and one cash register (or drawer) per cashier. This enables assignment of responsibility for cash to a specific individual at all times.
 11. Policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

BARS 3.8.8.15 Accounting- Expenditures: Imprest, Petty Cash and Other Revolving Funds – Accounting (extracts)

The authorized balance of imprest, petty cash and other revolving funds should be reported as cash in the general ledger in whichever fund expenditures are expected to be paid from. Expenditures should be recorded when such funds are replenished to their authorized balance.

BARS 3.8.8.20 Accounting- Expenditures: Imprest, Petty Cash and Other Revolving Funds - Controls (extracts)

The following are minimum expected controls for revolving funds:

1. The governing body must authorize each revolving fund in the manner that local legislation is officially enacted, i.e., resolution or ordinance. This applies also to all subsequent increases or decreases in the imprest amount.

4. On at least monthly basis, the fund should be reconciled to the authorized balance and to the actual balance per bank statements or a count of cash on hand. If this reconciliation is done by the custodian, it should be checked or re-performed periodically by someone other than the custodian. It is recommended that independent checks not be scheduled with the custodian but be done on a surprise basis.

7. Whenever disbursements are made, the fund must be replenished at least monthly by warrant or check. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached. The receipts should show the date, recipient, purpose, and amount of each cash disbursement. These receipts must be signed by the person receiving the money, stamps, etc. The receipts should be perforated or canceled by some other appropriate means to prevent reuse. At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized balance.

11. Whenever a revolving fund is abolished or an individual's appointment as custodian is terminated, the fund must be replenished to the authorized amount, reviewed and certified as being turned over to the treasurer or new custodian.

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